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THE EMPIRE LIFE INSURANCE COMPANY ANNUAL REPORT 1968

Head Office: Kingston, Ontario

THE EMPIRE LIFE INSURANCE COMPANY



Comparative Highlights

	1968	1963
Insurance and annuities in force - - - - -	\$830,000,000	\$420,000,000
New insurances and annuities - - - - -	153,000,000	75,000,000
Paid to policyowners and beneficiaries - - - - -	6,476,000	3,742,000
Assets - - - - -	83,948,000	53,797,000
Liabilities - - - - -	77,176,000	48,935,000
Surplus, special reserves and shareholders' funds - - -	6,772,000	4,862,000
Net rate of interest earned - - - - -	6.21 %	5.68 %

THE EMPIRE LIFE INSURANCE COMPANY



Board of Directors

CHARLES P. FELL, LL.D., <i>Honorary Chairman</i>	- - - - -	Toronto, Ont.
HENRY R. JACKMAN, Q.C., <i>Chairman</i>	- - - - -	Toronto, Ont.
HERBERT H. BLAKEMAN, F.S.A., F.C.I.A., <i>President</i>	- - - - -	Kingston, Ont.
HONOURABLE LOUIS P. BEAUBIEN, <i>Senator</i>	- - - - -	Montreal, P.Q.
AIR MARSHAL WILFRED A. CURTIS, S.M., C.B., C.B.E., D.S.C., LL.D., D.Mil.Sc., E.D.	- - - - -	Toronto, Ont.
NEWMAN A. FAIRHEAD	- - - - -	Toronto, Ont.
HENRY N. R. JACKMAN	- - - - -	Toronto, Ont.
WILLIAM A. MACKINTOSH, C.C., C.M.G., Ph.D., LL.D.	- - - - -	Kingston, Ont.
N. DONALD McDONALD, M.B.E., F.L.M.I.	- - - - -	Kingston, Ont.
THOMAS OAKLEY	- - - - -	Bobcaygeon, Ont.
ARTHUR PEDOE, F.I.A., F.S.A., F.C.I.A.	- - - - -	Toronto, Ont.

Directors' Report for the Year 1968

Your Directors have pleasure in presenting the forty-sixth Annual Report on the operations of the Company for the year ending 31 December, 1968.

While the year 1968 was characterized by a series of international monetary crises, as well as several events of a politically disturbing nature, these circumstances did not prevent a record of excellent economic growth and trade expansion. Our Canadian economy achieved a Gross National Product of some \$67 billion and an export surplus of around \$1.2 billion. In physical terms our economy expanded by 4.2% and price increases were responsible for an additional 3.6% gain in the dollar value of activity. This measure of relative prosperity was coupled with high unemployment, inflation and areas of prosperity. The continued forward thrust of prices inflation, in spite of measures taken to deter it, is cause for serious concern.

For the Canadian life insurance industry, the budget resolutions of October 1968 carried a greater impact than any other recent development. The new scheme of taxation is comprised of (1) a direct tax payable by the policyowner on realized gains under his policy, (2) an indirect tax on the policyowner payable by the Company on its investment income and (3) the corporation income tax on the earnings of the Company. While the details of these tax measures are not yet determined, it is obvious that the main burden of them will fall upon policyowners through increased premiums for new life insurance generally and reduced benefits under participating policies. At a time when our Canadian economy needs (1) stimulation of capital formation through individual savings and (2) encouragement of individuals to provide security for themselves and dependants, the new taxes are a negation of these purposes. Preferably, the tax scheme should be applied against funds for spending rather than funds directed to savings.

The industry trend towards the development of new products and services, which has been stimulated by the intrusion of government into traditional fields such as pensions and health insurance, will be further intensified as a result of the new tax measures.

NEW BUSINESS AND INSURANCE IN FORCE

Among the highlights of Empire Life operations in 1968 were new records in insurance written, gain of insurance in force, increase in assets and surplus earnings. In particular, for the first time in its history the Company's sales of ordinary insurance on individuals passed the \$100 million mark.

New life insurance sales made by our field organization during 1968 were \$153 million in net amount, being an increase of 48% over the previous year. For both individual policies and group business, the growth of new sales was well above the average for the industry.

The total business in force is 80,838 policies for an amount in excess of \$830 million, excluding business reinsured with other companies. Sterling business is included at the current rate of exchange. The business in force is comprised of ordinary life insurance \$550 million and group insurance \$280 million. The net increase of insurance in force for the year is \$111 million.

ASSETS

The assets of the Company which support its policy obligations increased by \$8,419,147 to reach a total of \$83,948,402. The proportion of the assets in each of the several investment categories and the changes from 5 years ago are indicated in the schedule:

	1963	1967	1968
Bonds and debentures - - - - -	34.6%	25.0%	23.8%
First mortgage loans on real estate - - - - -	51.1	59.0	58.1
Preferred and common stocks - - - - -	6.2	8.5	10.6
Policy loans - - - - -	6.6	6.3	6.5
Real Estate - - - - -	1.3	1.0	0.9
Cash - - - - -	0.2	0.2	0.1
	100.0%	100.0%	100.0%

During 1968 greater emphasis was given to investment in equities and it will be noted that this category shows relatively more change than the others.

The net rate of interest earned on the invested assets, after allowance for investment expenses, was 6.21%, an increase of .09% over the previous year.

POLICY RESERVE AND OTHER LIABILITIES

The liability of the Company under its obligations for future payments to policyowners is \$67,559,644. The amount of these reserves represents the present value of benefits guaranteed less future premiums and interest. The reserves are based upon assumed factors of mortality and interest much more stringent than those required by statute, giving added strength to the Balance Sheet. Other liabilities relating to policy contracts, i.e., amounts on deposit with the Company, claims in process of settlement or unreported at the year end and provision for profits to policyowners are represented by an amount of \$6,417,989.

The Staff Pension Fund has increased to \$2,056,950, inclusive of the amount in the Segregated Investment Fund, while taxes and other accrued expenses and liabilities account for \$532,824.

REVENUE AND SURPLUS

The total net income for the year amounted to \$18,614,560, an increase of \$2,249,461 over the previous year. Of this amount, the premiums were \$13,712,828 and the investment income \$4,728,363.

Benefit payments made to policyowners and beneficiaries during the year were \$6,476,823. The amounts set aside in the form of reserves against future obligations were \$6,292,780.

For 1968 there was a marked increase in single premiums for the purchase of annuities. Since the statutory reserves on these policies are larger than the premiums, there is a reserve strain or depletion of earnings to the extent of the difference in the current year. While such business increases future earnings, it is estimated that this factor reduced the 1968 earnings of the Company as compared with the previous year by over \$300,000.

In spite of the foregoing item, the Company's earnings for 1968 were substantial. For the protection of policyowners, in excess of the normal reserves, there is a margin of \$6,772,172 available by way of contingency and special reserves, capital stock and unassigned surplus.

GENERAL

Reference has been made to the external factors which have encroached upon traditional areas of life company operations. Partially to offset this trend, but also as a matter of general policy, your Company has undertaken definite measures to broaden the range of financial services which it is prepared to offer.

The program of equity-linked plans based upon the segregated fund was expanded in 1968 so that the Company now has adequate flexibility of service in this field.

Since the corporate powers of Empire Life are limited by statute to life insurance functions, in 1968 the Board of Directors decided to create E-L Financial Corporation Limited, a multi-purpose financial service company, with sufficiently broad corporate and investment powers to expand Empire Life's activities into profitable related areas. This development has been well received by our shareholders and by the financial community.

STAFF

This report reflects excellent performance throughout the past year by our representatives and office staffs. Without their abilities and industry the growth outlined in this report would not have been accomplished.

H. R. JACKMAN
Chairman of the Board

H. H. BLAKEMAN
President

Balance Sheet December 31, 1968

ASSETS

	1968	1967 (For Comparison)
Cash - - - - -	\$ 120,487	\$ 127,945
Bonds and Debentures - - - - -	19,386,249	18,474,032
First Mortgages on Real Estate - - - - -	47,454,567	43,654,079
Preferred and Common Stocks - - - - -	8,617,924	6,293,893
Real Estate (less amounts written off for depreciation)		
Held for the Production of Income - - - - -	169,771	148,651
Head Office and Branch Premises - - - - -	556,238	568,715
Loans on Policies - - - - -	5,303,849	4,647,977
Outstanding Premiums - - - - -	643,311	600,224
Interest, Due and Accrued - - - - -	746,134	650,275
Segregated Investment Fund - - - - -	931,911	357,706
All other Assets - - - - -	17,961	5,758

NOTES:

1. The basis of valuation of invested assets, other than the Segregated Investment Fund, is cost or amortized value, less amounts written off from time to time, and the resulting book values are not in excess of the values authorized by the Association of Superintendents of Insurance of the Provinces of Canada. The Segregated Investment Fund is shown at quoted market values.
2. Effective from July 1st 1965, the Company grant portion of the Staff Pension Fund is being invested in the Segregated Investment Fund.
3. The authorized capital stock consists of 2,000,000 shares of a par value of \$1.00 each of which 704,528 shares are outstanding and fully paid up.

\$83,948,402	\$75,529,255
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H. R. JACKMAN, *Chairman of the Board*

H. H. BLAKEMAN, *President*

Auditors' Report

To the Shareholders of
The Empire Life Insurance Company:

We have examined the balance sheet of The Empire Life Insurance Company as at December 31, 1968 and the statements of revenue and expenditure, shareholders' surplus, and unallotted surplus for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Toronto, Canada, January 14, 1969.

LIABILITIES

	1968	1967 (For Comparison)
Policy Reserves - - - - - This is the amount which with interest and future premiums is actuarially calculated to be sufficient to provide for all pay- ments under insurance and annuity contracts.	\$67,559,644	\$60,764,784
Provision for Unpaid and Unreported Claims - - - - -	1,111,276	1,152,376
Amounts Left with the Company at Interest - - - - - Policy proceeds, dividends, etc.	2,804,203	2,513,769
Provision for Profits to Policyowners - - - - -	2,502,510	2,186,000
Staff Pension Fund (note 2) - - - - - See also segregated investment fund below.	1,733,862	1,603,630
Premium and Other Taxes Payable - - - - -	78,283	92,475
Accounts Payable, Agents' Credit Balances and Other Amounts Due and Accrued - - - - -	175,381	233,623
Amounts Received, Not Yet Allocated - - - - -	279,160	109,554
Segregated Investment Fund (note 2) - - - - - Including \$323,088 (1967—\$176,226) belonging to Staff Pension Fund.	931,911	357,706
	<u>\$77,176,230</u>	<u>\$69,013,917</u>
Surplus, Special Reserves and Shareholders' Funds:		
Capital stock, fully paid (note 3) - - - - -	704,528	704,528
Shareholders' surplus - - - - -	93,713	75,063
General reserve for investments and contingencies - - -	1,000,000	1,000,000
Unallotted surplus - - - - -	4,973,931	4,735,747
	<u>\$ 6,772,172</u>	<u>\$ 6,515,338</u>
	<u>\$83,948,402</u>	<u>\$75,529,255</u>

Accepting the certificate of the Company's Actuary for the actuarial liability under insurance and annuity contracts and certain other liabilities to policyowners, we report that, in our opinion, these financial statements present fairly the financial position of the company as at December 31, 1968 and the results of its operations for the year then ended.

THORNE, GUNN, HELLIWELL & CHRISTENSON,
Chartered Accountants

Officers and Administrative Staff

HENRY R. JACKMAN, Q.C.
Chairman of the Board

HERBERT H. BLAKEMAN, F.S.A., F.C.I.A.
President

N. DONALD McDONALD, M.B.E., F.L.M.I.
Executive Vice-President

W. H. AITKEN, F.S.A., F.C.I.A.
Vice-President and Actuary

E. W. KAITTING, F.L.M.I., F.E.A.A.
Vice-President and Secretary

H. N. R. JACKMAN
Financial Vice-President

J. M. McINNIS, F.L.M.I.
Mortgage Officer

R. BALTRUWEIT, F.L.M.I.
Controller

G. D. DE RÉ, A.C.L.U.
Marketing Research Officer

N. G. BURNSIDE
Underwriting Officer

J. N. CHESEBROUGH, M.D.
Medical Officer

W. H. MERRIAM, C.L.U.
Agency Development Superintendent

D. E. SCHLICHTER, A.C.L.U.
Superintendent, Group

A. G. DRAGONE
Executive Assistant, Securities

H. P. PERGANTES
Associate Agency Development Superintendent

B. V. DOUTHWAITE
Assistant Agency Development Superintendent

K. J. HARDING, F.I.A., F.C.I.A.
Associate Actuary

R. E. SMART, F.S.A., F.C.I.A.
Assistant Actuary

Branch Offices and Agencies

	Branch Offices	Managers
British Columbia	Vancouver - - - - -	S. L. Baker
	Edmonton - - - - -	T. Bell
Alberta	Calgary North - - - - -	D. A. Wight, C.L.U.
	Calgary Chinook - - - - -	W. Millar, C.L.U.
Manitoba	Winnipeg - - - - -	R. H. Little
	Hamilton - - - - -	D. Giannini, M.B.E., C.L.U. Assistant Agency Vice-President
Ontario	St. Catharines - - - - -	A. Vallesi
	Kingston (St. Lawrence) - - - - -	C. J. Lawlor, C.L.U.
	London - - - - -	A. P. Schofield, C.L.U.
	Ottawa - - - - -	D. G. Fairweather
	Toronto Centre - - - - -	J. E. McKenna
	Toronto Don - - - - -	S. Morris
	Toronto West - - - - -	A. O. Schreiter, C.L.U.
	Toronto East - - - - -	L. G. Ayles
	Toronto Bathurst - - - - -	J. H. Green
	Toronto Bayview - - - - -	W. H. Martin, C.L.U.
Group	Toronto Lambton - - - - -	J. W. Brown, C.L.U.
	Windsor - - - - -	J. J. Kassa
	Group Offices	
Group	Vancouver, B.C. - - - - -	E. J. R. Boulter
	Edmonton, Alta. - - - - -	W. B. McAthey, C.L.U.
	Toronto, Ont. - - - - -	R. L. Davis
	Montreal, Que. - - - - -	A. Vezina

Branch Offices

Managers

Quebec

Montreal	- - - - -	R. G. Charbonneau
Montreal Bonaventure	- - - - -	L. Copoloff
Montreal Cartier	- - - - -	R. Martel
Montreal Centre	- G. D. Shore, Assistant Agency Vice-President	
Montreal St. Laurent	- - - - -	G. E. Ouwendyk, C.L.U.
Quebec	- - - - -	J. L. Morency
Sherbrooke	- - - - -	
Trois-Rivières	- - - - -	A. Sauvageau

Prince Edward
Island

Charlottetown	- - - - -	W. B. MacDonald
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Agencies

Agencies

Vancouver, B.C.	- - - -	Principal Insurance Agency Limited
Saskatoon, Sask.	- - - - -	Empire Agencies Limited
Sault Ste. Marie, Ont.	- - - - -	A. A. Biagini
Toronto, Ont.	- - - - -	Canadian Insurance Services Limited
Toronto, Ont.	- -	D. B. Cowper Life Insurance Agencies Ltd.
Toronto, Ont.	- - - - -	W. A. Curtis & Company Limited
Toronto, Ont.	- -	Burns, Gery, Kelly & Franczak Ins. Agcy. Ltd.
Montreal, Que.	- - - -	Castle Insurance Agencies Limited
Bermuda	- - - - -	W. C. Roberts
Jamaica	- - - - -	Herman A. McCallum & Co.
